# Ontario Energy Board

Annual Report 2012–2013

Ontario

# Ontario Energy Board – By the Numbers

$4.35 per customer – OEB operating expenses this year

$115.44 – Average residential monthly electricity bill (at January 1, 2013)*

$68.68 – Average residential monthly natural gas bill (at January 1, 2013)**

475 Decisions issued (includes rates, facilities, licences and corporate changes such as amalgamations)

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## ELECTRICITY

**In electricity we license/rate-regulate the following:**

**Agencies**

- Independent Electricity System Operator (IESO)
- Ontario Power Authority (OPA)
- Smart Metering Entity (SME)

**Distributors and Transmitters**

- **83** Distributors
- **13** Transmitters

**Generators**

- **205** Standard Generators
- **70** Under Standard Offer Program
- **48** Under Feed-in Tariff Program

**Wholesalers and Retailers**

- **108** Wholesalers
- **42** Retailers
- **19** Unit Sub-meter Providers

**Total Distribution Assets $18,718,862,706**

**Total Distribution Customers 4,893,782**

| | |
|---|---|
| Residential Customers | 4,406,331 |
| General Service <50kW Customers | 430,289 |
| General Service (50–4999kW) Customers | 56,608 |
| Large User (>5000kW) Customers | 133 |
| Sub Transmission | 421 |

## NATURAL GAS

**In natural gas we license/rate-regulate**

- **3** Distributors (rate-regulated only)
- **31** Marketers

**Total Distribution Assets $12,647,157,955**

**Total Distribution Customers 3,413,710**

| | |
|---|---|
| Enbridge Gas Distribution Inc. | 2,027,286 |
| Union Gas Limited | 1,378,953 |
| Natural Resource Gas (NRG) | 7,471 |

## LOW-INCOME ENERGY ASSISTANCE PROGRAM (LEAP)

**Total assistance provided to customers by electricity distributors in 2012 $3,946,644**

**Total number of customers assisted in 2012 8,053**

**Total assistance provided to customers by natural gas distributors in 2012 (LEAP and Union Gas's Winter Warmth funding) $2,134,411**

**Total number of customers assisted in 2012 4,889**

* based on typical monthly consumption of 800 kWh

** not weighted. based on typical monthly consumption of 183 $m^3$

# Our Mandate

The Board's mandate is determined by the provincial government and is embodied in legislation, regulation and directives

# Our Mission

To promote a viable, sustainable and efficient energy sector that serves the public interest and assists consumers to obtain reliable energy services at reasonable cost

# Vision Statement

- The Board regulates the electricity and natural gas sectors in a manner that focuses on outcomes that are valued by consumers
- Under the Board's regulatory framework, distributors, transmitters and other regulated entities invest and operate in a manner that increases efficiency and productivity, and that provides consumers with a reliable energy supply at a reasonable cost
- The Board's own processes are efficient and cost effective and are understood by and accessible to both industry and consumers
- Energy consumers have the information they need to understand the value they receive for their expenditures on energy and to make choices regarding their own use of energy

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# Letter to the Minister of Energy

During the 2012–2013 fiscal year, the Ontario Energy Board made substantial progress towards achieving the commitments set out in the Board's Business Plan. All of this work strengthened the Board's continuing focus on consumers.

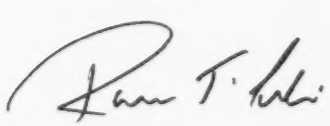
Three features of the Board's work over the past year are particularly noteworthy. First, the Board moved forward with the Renewed Regulatory Framework for Electricity. That framework is designed to support the cost-effective planning and operation of the electricity distribution system and to ensure that distributors remain focused on meeting the expectation of customers for reliable service at reasonable cost – both now and into the future.

Second, the Board completed a review of its applications and hearing processes with a view to improving their efficiency, effectiveness and accessibility. The review considered the respective roles of staff, Board members, applicants, and intervenors. Input from a broad range of stakeholders was important in helping to identify areas in which improvement was warranted. Improvements to the standard notice of application, the interrogatory process and the guidance provided to applicants have already been implemented. While further work to enhance our application and hearing processes will continue through 2013, parties will soon see the benefits of the changes we are making, especially during the hearings regarding the 2014 distribution rate applications.

Third, the Board initiated a comprehensive review of the many ways in which the Board engages with energy consumers, particularly low-volume consumers. This review extended across the full range of the Board's activities, including adjudication, policy development, compliance, and our communication with consumers through our website, call centre, publications, and outreach initiatives. This review will guide the Board as it endeavours to make the Board's own processes more accessible, to provide consumers with the information they may need to make decisions about their own energy use, and to make the Board's decisions more understandable. The progress on these three initiatives proceeded alongside important work regarding many of the other initiatives set out in the Business Plan and the Board's ongoing work to fulfill its statutory mandate. That work is described in further detail in the Highlights and audited Business Plan results set out in this Annual Report.

I am extremely proud of the work that the Board accomplished this past year. I would like to thank all of our employees and the members of the Board for their continuing support and hard work in carrying out the ambitious agenda we set for ourselves in 2012–2013. Everyone at the Board is also grateful to our stakeholders for their important contribution to the work of the Board over the past year. This work forms a very strong foundation for what will undoubtedly be another productive year at the Board.

Yours sincerely,



**Rosemarie T. Leclair**
Chair and Chief Executive Officer

# 2012–2013 Highlights of the Year

## Consumers

Consumers are seeking reliable service that is cost effective. When that cost changes, consumers look for answers and understanding. The Board must align the requirements of the electricity and natural gas sectors with the needs of consumers. The Board will endeavour to meet the needs and expectations of consumers by focusing on outcomes that they value.

**Consumer Touchpoints Review** This past year we completed a review of how we interact with consumers, and whether we are doing so in the right ways and places. That review identified a number of opportunities for improvements to help make the Board's role, processes, and consumer-facing tools more accessible and understandable to consumers and to help increase consumer awareness about energy issues. As a result, the Board has already started to implement some of the findings, such as adopting plain language principles to our consumer website and other consumer-facing products. We are also exploring ways to explain the complexities of our energy system and regulation through more visual means, including video and informative graphics. More work will be undertaken in 2013 and 2014 to apply this new approach to consumer communication and engagement across the full spectrum of the Board's consumer-facing activities.

**Consumer Engagement and Protection** Ensuring consumers understand their rights and responsibilities is an important part of ensuring they can protect themselves as consumers. The Board handled over 14,500 consumer contacts through its Consumer Relations Centre. These contacts included close to 2,400 complaints against the companies we regulate. Ensuring those companies comply with the rules set out by the Board and the Province is another important aspect of protecting consumers. Our enforcement activity in the retail sector this past year included 10 enforcement actions and resulted in administrative fines totalling $131,000.

The Board launched a province-wide public awareness "Knock Knock" campaign in 2012 that offered basic tips to consumers on dealing with door-to-door sales agents and what to consider before they decide to sign an energy contract. This campaign of radio and online ads, a YouTube video and community outreach in 13 languages drew significantly more consumers to the Board's consumer website. Board staff participated in a number of community fairs and other local events across Ontario, interacting with more than 4,000 energy consumers.

An important part of a consumer's rights relates to the customer service rules in place for utilities. The Board previously established province-wide customer service standards for electricity distribution companies. It built on these enhanced rules by working with natural gas distributors to formalize similar service standards for their customers.

**Low-Income Energy Assistance Program (LEAP)** Consumers with limited financial resources have unique needs. The Board works with local utilities, social agencies, consumer groups and others in the energy sector on a number of initiatives to help customers manage their energy costs through LEAP.

- $3.9 million in LEAP Emergency Financial Assistance was provided to more than 8,000 customers by electricity distributors in 2012.
- $2.1 million in Emergency Financial Assistance was provided to nearly 4,900 customers by natural gas distributors in 2012.

# 2012–2013 Highlights of the Year (continued)

## Industry

The efficiency of the electricity and natural gas sectors is an important contributor to the growth of the Ontario economy. The Board will be called on to assess the ongoing need for investment in both sectors. Such investment may be needed in order to maintain the safe and reliable operation of the electricity and natural gas delivery systems and to facilitate the connection of renewable generation in accordance with government policy.

The Board will endeavour to ensure that the pace at which this investment proceeds has particular regard for the impact on consumers.

**Renewed Regulatory Framework for Electricity** As the expectations of consumers and the obligations placed on distributors change, the Board must renew its approach to regulating the industry to reflect these changes. It needs to regulate the industry in a way that serves present and future consumers, and that better aligns the interests of consumers and industry while continuing to support the achievement of public policy objectives.

After extensive stakeholder consultation, the Board released its Renewed Regulatory Framework for Electricity (RRFE) in October 2012. The renewed regulatory framework is a comprehensive performance-based approach to regulation that is based on the achievement of outcomes that ensure that Ontario's electricity system provides value for money for customers. It encompasses a set of related policies that will help to facilitate the achievement of these performance-based outcomes – rate setting, planning, and measuring performance. Policies, guidelines, codes and reporting requirements will be amended as required as the RRFE continues to roll out.

Ultimately, the Board expects that this new approach will be applied to transmitters, generators and gas utilities regulated by the Board.

**Setting Payments for Ontario Power Generation's (OPG's) Prescribed Facilities** The Board sets the payments OPG receives for electricity it produces from certain facilities, including its nuclear fleet and major hydroelectric generation. The Board launched a consultation and evaluated a number of options for incentive regulation for OPG's prescribed generation against a set of objectives that included promoting efficiency; preserving OPG's financial integrity, reliability and safety; lowering consumer bills; and preserving the value of OPG's facilities. In March, the Board released its policy direction stemming from that consultation. The policy lays out the steps toward developing a hydroelectric incentive payment mechanism and also developing parameters for a multi-year payment mechanism for OPG's nuclear prescribed assets.

**Transmission Infrastructure: The East-West Tie** In March 2011, the Minister of Energy asked the OEB to create a process for selecting the most qualified and cost-effective transmission company to develop the East-West Tie transmission line. The line connects Northeast and Northwest Ontario and is one of the priority transmission projects identified in Ontario's Long-Term Energy Plan.

The Board initiated a proceeding and in July 2012 established the specifics for the proceeding including: decision criteria, filing requirements and the hearing process for ultimately selecting a transmission company. That designation is expected to be made later in 2013.

**Review of Natural Gas System Expansion Guidelines** In February 2013, the Board issued draft filing guidelines to be used for an economic assessment of a proposed pipeline on existing pipeline systems. These guidelines are designed to ensure long-term capital investments in the natural gas system are economically prudent.

## Public Policy

One of the most important roles of a regulator is to align specific regulatory policies with the broader public policy framework established by Government in a constructive and effective manner.

**Natural Gas Demand Side Management (DSM) Framework Review** Board-approved DSM programs have been in place since 1994. In October 2012, the Board reported on the 2011 results of Natural Gas DSM programs. Those results confirm that the generic multi-year DSM framework, which has now expired, achieved the results for which it was designed. With its expiry, the Board will review the existing framework and develop guidelines to be used by natural gas distributors in developing their next generation DSM plans.

**Time-of-Use (TOU) Pricing Review** The vast majority of consumers across the province are now on time-of-use pricing. That implementation presented the opportunity for the Board to undertake a review of TOU's existing price structure. We worked with 18 distributors to create a database of consumption data. The data will be used to determine whether modifications are required to the TOU pricing structure. The Board continued collecting data from the participating distributors through the spring in order to ensure an adequate sample of data. The study is now expected to be complete by the end of August 2013.

## Organization

As the Renewed Regulatory Framework for Electricity aims to align the interests of industry and consumers, it is important that the Board aligns its internal processes with the outcome-based approach reflected in the renewed framework. Our desired outcome is a set of processes that are accessible and understood by all.

**Rates Application Process Review** In 2012, the Board completed a thorough review of our hearing and application processes. A number of recommendations came out of that review, including redesigning the public Notice of Application so that it is more understandable to consumers and better informs them on how to become involved in the Board's hearing process. The simplified Notice of Application will be implemented for 2014 cost-of-service rate applications. Many other improvements to the applications and hearing processes are underway and will be implemented alongside the Renewed Regulatory Framework initiatives for 2014 rate hearings.

**Reporting and Record Keeping Requirements Review** Upon completing a comprehensive review of Electricity Reporting and Record Keeping Requirements, the Board implemented a number of changes to streamline its reporting requirements. As the RRFE implementation continues and, in particular, as the Performance Scorecard is developed, further improvements will be implemented.

## Looking Ahead

The coming year 2013-14 will build on our achievements during 2012-2013. We will be moving forward with implementing our Renewed Regulatory Framework for electricity distributors. We will be enhancing the ways in which we engage with consumers and reflect their perspectives in our work. We will also be improving the efficiency and effectiveness of our applications and hearing processes. Our hope is that this work will continue to strengthen consumer confidence in the energy sector.

# Our Performance

The OEB measures its performance using a balanced scorecard approach. Performance indicators are put in place to support five key focal areas defined in the 2012–2013 Business Plan objectives:

1. Consumer
2. Industry
3. Public Policy
4. Organization
5. Process Metrics

An independent audit firm, WREN Group, assessed the Board's performance in achieving the Business Plan initiatives over the past year. According to WREN Group, "The results verify a **95.1 per cent** success in achieving the 2012–2013 Business Plan objectives."

The following scorecard describes the five key focal areas. Each initiative is weighted and has individual milestones and targets to assist in meeting the initiatives. The scoring for each initiative is based on achievement of each milestone. If an initiative does not achieve 100 per cent, then a partial score for the initiative is applied. The scores for the initiatives are added together and the focus area weighting is applied to calculate the percentage score for a particular focus area. All focus area scores are then added together for the overall achievement score.

## Focus Area: Consumers

Consumers are seeking reliable service at reasonable cost. When that cost changes, consumers look for answers and understanding. The Board must align the requirements of the electricity and natural gas sectors with the needs of consumers. The Board will endeavour to meet the needs and expectations of consumers by focusing on outcomes that they value.

| Initiative | Target | Audit Result |
|---|---|---|
| **Review and enhance the ways in which the Board engages with consumers.** | Review and identify opportunities to enhance consumer education and engagement activities. Implement based on recommendations from review. | Complete |
| **Adopt a risk-based approach to the compliance by retailers, marketers, sub-meter providers, and distributors with their regulatory obligations to consumers.** | Develop and implement a risk-based approach to compliance in the retail sector. | Complete |
| **Continue to address the needs of low-income energy consumers.** | Monitor and assess the effectiveness of the Emergency Financial Assistance program. | Complete |
| | | CONSUMER TOTAL: 100% |

## Focus Area: Industry

The efficiency of the electricity and natural gas sectors is an important contributor to the growth of the Ontario economy. The Board will be called on to assess the ongoing need for investment in both sectors. Such investment may be needed in order to maintain the safe and reliable operation of the electricity and natural gas delivery systems and to facilitate the connection of renewable generation in accordance with government policy. The Board will endeavour to ensure that the pace at which this investment proceeds has particular regard for the impact on consumers.

| Initiative | Target | Audit Result |
|---|---|---|
| **Review the regulatory framework for electricity distributors and transmitters, with particular regard to the impact on consumers.** | Develop renewed regulatory framework policy. | Complete |
| **Review the regulatory approach to setting payments for Ontario Power Generation (OPG).** | Assess alternative approaches to setting payments for OPG. | Complete |
| **Complete the designation process for the East-West Tie.** | Complete the hearing phase for the designation process. | Complete |
| **Assess how the Board's approach to the regulation of electricity distributors may affect the ability of distributors to realize operational or organizational efficiencies that benefit consumers.** | Assess whether modifications to the Board's approach to regulation are warranted. | 75% Complete*<br>*Assessment report completed and presented to the Board. Additional research and analysis being conducted in 2013–14. |
| **Review the Ontario natural gas market conditions and regulatory guidelines.** | Review system expansion guidelines. | Complete |
| | | INDUSTRY TOTAL: 98.7% |

# Our Performance (continued)

## Focus Area: Public Policy

The Board must carry out its mandate having due regard to the broader public policy framework established by Government. The Board will carry out the particular responsibilities assigned to it by legislation, regulation and directive in a constructive and effective manner.

| Initiative | Target | Audit Result |
|---|---|---|
| **Ensure that the rules governing the connection of renewable generation to the grid are effective and are aligned with government policy.** | Review connection rules and processes and implement changes required. | 75% Complete*<br>*Embedded rule changes completed. Proposed amendments to micro-embedded rule changes issued. Final rule changes to be issued in 2013–14. |
| **Review and evaluate time-of-use prices for electricity.** | Collect and analyze data. | 75% Complete*<br>*Preliminary analysis completed. Data collection and quality assessments delayed the production of the final report until after year end. |
| **Review and evaluate conservation and energy efficiency programs for consumers in the electricity and natural gas sectors.** | Monitor the results of natural gas demand-side management (DSM) programs. | Complete |
| | Evaluate and report on the achievement of conservation targets by electricity distributors. | Complete |
| | | PUBLIC POLICY TOTAL: 85.7% |

## Focus Area: Organization

The Board understands that its activities are funded by the entities it regulates and, ultimately, by all the energy consumers of Ontario. The Board will continue to manage its operations in a cost-effective manner. The Board will endeavour to ensure that its processes are efficient, understood and accessible to both industry and consumers.

The Board will strengthen the capabilities of its workforce through leadership development, formal training and education, and on-the-job learning. The Board will also develop initiatives to attract and retain employees with the skills and knowledge needed by the Board to carry out its mandate.

| Initiative | Target | Audit Result |
|---|---|---|
| **Review and evaluate the applications process.** | Review and identify opportunities to improve the efficiency of the adjudicative process. Implement based on recommendations from the review. | Complete |
| **Review the Reporting and Record Keeping Requirements.** | Evaluate and implement changes to the Reporting and Record Keeping Requirements, having regard to the new policy evaluation framework. | Complete |
| **Review and enhance the Board's policy consultation process.** | Evaluate the effectiveness of the policy consultation process and modify the process in accordance with that evaluation. | 25% Complete*<br>*Draft changes to policy consultations process were developed in the Renewed Regulatory Framework for Electricity (RRFE). Staff redeployed to higher priority work related to the RRFE.<br>Evaluation of the OEB consultation processes will be undertaken after the RRFE consultation processes are complete. |
| **Review and enhance the Board's oversight role regarding the wholesale electricity market.** | Implement new Market Surveillance Panel protocols. | Complete |
| **Review and enhance the Board's oversight role regarding the wholesale electricity market.** | Implement a process for the Board's review of the Independent Electricity System Operator transmission reliability standards. | Complete |
| | | ORGANIZATION TOTAL: 89.3% |

# Our Performance (continued)

## Focus Area: Process Metrics

| Initiative | Target | Audit Result |
|---|---|---|
| **Market Operations Hotline response within metrics.** | 90% of responses within 10 days. | Achieved |
| **Consumer calls metric for the Consumer Relations Centre.** | 80% of calls answered within 20 seconds, voice mail the next day, and consumer correspondence within 10 days. | Achieved |
| **Board & delegated review of applications by staff within established metrics.** | 75% for Board decisions, 80% for delegated staff decisions and 90% within 60 days for cost award decisions. | Achieved |

PROCESS METRICS TOTAL: 100%

# Report on Regulatory Costs

Consistent with its commitment to good corporate governance, the Board reports annually on the regulatory costs associated with oversight of Ontario's gas and electricity sectors. The following three measures are identified:

- three-year rolling average percentage change in operating expenses;
- three-year rolling average of operating expenses as a percentage of industry revenues, and
- three-year rolling average of operating expenses per end-use customer.

The following chart illustrates the rolling three-year averages for each of these regulatory cost measures.

| | OEB | | |
|---|---|---|---|
| | 2012–13 | 2011–12 | 2010–11 |
| Electric Customers[a] | 4,898,272 | 4,843,759 | 4,789,637 |
| Natural Gas Customers | 3,413,710 | 3,352,723 | 3,312,736 |
| **Measure #1: Operating Expense per Customer ($/yr/customer)** | **$4.35** | **$4.17** | **$4.29** |
| 3-Year Rolling Average | $4.27 | $4.18 | $4.23 |
| Industry Revenue ($B)[b] | $23.0 | $23.5 | $20.3 |
| **Measure #2: Operating Expense as % of Industry Revenue** | **0.16%** | **0.15%** | **0.17%** |
| 3-Year Rolling Average | 0.16% | 0.16% | 0.16% |
| Operating Expenses | $36,176,742 | $34,148,859 | $34,756,309 |
| **Measure #3: Percentage Change in Operating Expenses** | **5.94%** | **-1.75%** | **6.55%** |
| 3-Year Rolling Average | 3.58% | 0.34% | 2.71% |

Notes:

a) Source: Annual Reports.

b) Source: 2010-11 to 2012-13 estimates based on various OEB and Statistics Canada sources.

c) Source: Ontario Energy Board, Financial Statements. The figure used is Total Expenses as reported in the Statement of Operations and Net Assets. Total expenses include Board costs recoverable under Section 30 of the *Ontario Energy Board Act, 1998* of $1,437,254 in 2012-13, $994,582 in 2011-12, and $1,598,355 in 2010-11. Intervenor and stakeholder costs that regulated entities were ordered to pay are not a cost of the Board and are therefore not included in total expenses.

Commentary:

**Measure #1: Operating Expenses per Customer**
Operating expenses per customer increased by $.18 (4%) from 2011-12 to 2012-13 due to the increase in OEB operating expenses, as explained in Measurement #3 below.

**Measure #2: Operating Expense/Industry Revenue**
Industry revenue has remained consistent over the the 3-year period from 2010-11 to 2012-13. OEB operating expenses as a percentage of industry revenue remained consistent over this same period.

**Measure #3: Percentage Change in Operating Expenses**
Operating expenses increased $2M (6%) from 2011-12 to 2012-13 mainly due to one-time accruals in respect of pay equity, job evaluation, and restructuring costs.

## Section 30 Cost Awards

Section 30 of the *Ontario Energy Board Act, 1998*, states that the Board "may order a person to pay all or part of a person's costs of participating in a proceeding before the Board, a notice and comment process under section 45 or 70.2 or any other consultation process initiated by the Board." These costs may include costs of the Board and stakeholders. Board costs represent costs incurred in relation to specific proceedings or consultation processes (e.g. consulting services, court reporting and external meeting sites) and these costs are reflected in the Board's financial statements. Regulated entities are required to pay these costs to the Board for specific proceedings and consultation processes. Stakeholders costs represent costs that regulated entities are required to pay intervenors in proceedings and to stakeholders in consultation processes. These costs do not appear in the Board's financial statements.

The following outlines the cost award activity for the 2012-2013 fiscal year:

| | 2012–2013 |
|---|---|
| Board's costs recoverable under section 30 cost awards | |
| - natural gas proceedings | $ 368,199 |
| - electricity proceedings | 1,069,055 |
| Stakeholder costs recovered under section 30 cost awards for consultation processes initiated by the Board | |
| - natural gas proceedings | 22,755 |
| - electricity proceedings | 1,369,688 |
| Intervenor costs recovered under section 30 cost awards for proceedings initiated by applicants | |
| - natural gas proceedings | 2,748,783 |
| - electricity proceedings | 1,405,874 |
| **Total 2012–2013 Cost Awards Activity** | **$ 6,984,354** |

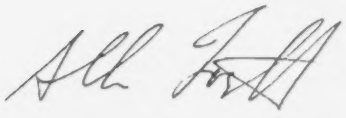
# Financial Statements

## Management's Responsibility

The Ontario Energy Board's management is responsible for the integrity and fair presentation of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods.

The Board maintains systems of internal accounting controls designed to provide reasonable assurance that reliable financial information is available on a timely basis and that the Board assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed and approved by the Board's Management Committee. In addition the financial statements have been audited by the Auditor General of Ontario, whose report follows.



**Allan Fogwill**
Managing Director, Planning & Business Services
*July 17, 2013*

# Financial Statements (continued)

## Independent Auditor's Report

To the Ontario Energy Board

I have audited the accompanying financial statements of the Ontario Energy Board, which comprise the statement of financial position as at March 31, 2013 and the statements of operations and net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

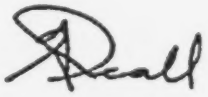
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Energy Board as at March 31, 2013 and the results of its operations, its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



**Gary R. Peall, CPA, CA, LPA**
Acting Auditor General

Toronto, Ontario
*July 17, 2013*

## Statement of Financial Position

As at March 31, 2013

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 5,432,863 | $ 5,820,653 |
| Investments – current (note 9) | 3,779,151 | 0 |
| Accounts receivable (note 9) | 640,739 | 1,248,728 |
| Regulatory process costs to be assessed | 1,116,931 | 803,780 |
| Deposits and prepaid expenses | 255,290 | 218,844 |
| Total Current Assets | 11,224,974 | 8,092,005 |
| Long-term Assets: | | |
| Investments – long-term (note 9) | 978,652 | 3,954,647 |
| Capital assets (note 5) | 4,448,355 | 5,360,403 |
| Total Long-term Assets | 5,427,007 | 9,315,050 |
| **TOTAL ASSETS** | **$ 16,651,981** | **$ 17,407,055** |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Deferred revenue (note 3c) | $ 223,927 | $ 1,714,893 |
| Accounts payable and accrued liabilities (note 3b) | 6,706,653 | 4,702,258 |
| Total Current Liabilities | 6,930,580 | 6,417,151 |
| Long-term Liabilities: | | |
| Deferred revenue related to capital assets (note 3d) | 2,680,093 | 3,330,178 |
| Deferred rent inducement (note 8) | 2,282,771 | 2,620,943 |
| Pension liability (note 6b) | 333,047 | 354,374 |
| Total Long-term Liabilities | 5,295,911 | 6,305,495 |
| **TOTAL LIABILITIES** | **$ 12,226,491** | **$ 12,722,646** |
| Operating Reserve (note 4) | $ 3,353,611 | $ 3,422,783 |
| Net Assets: | | |
| Internally restricted net assets (note 7) | 1,071,879 | 1,261,626 |
| **TOTAL LIABILITIES, RESERVE AND NET ASSETS** | **$ 16,651,981** | **$ 17,407,055** |

*See accompanying notes to financial statements*

On behalf of the Management Committee:

**Rosemarie Leclair**
Chair

**Cynthia Chaplin**
Vice-Chair

## Statement of Operations and Net Assets

Year Ended March 31, 2013

| | 2013 | 2012 |
|---|---|---|
| **REVENUES** | | |
| Recovery of Costs: | | |
| General cost recovery (note 3a) | $ 32,721,002 | $ 31,386,461 |
| Regulatory process costs | 1,437,254 | 994,582 |
| Amortization of deferred revenue related to capital assets | 1,241,269 | 1,189,663 |
| Total Revenues from Recovery of Costs | 35,399,525 | 33,570,706 |
| Other Revenues | | |
| Licence fees | 350,120 | 343,719 |
| Administrative penalties and interest (note 7) | 142,849 | 1,261,626 |
| Interest income | 87,816 | 223,884 |
| Miscellaneous income | 6,685 | 10,550 |
| Total Other Revenues | 587,470 | 1,839,779 |
| **TOTAL REVENUES** | **35,986,995** | **35,410,485** |
| **EXPENSES** | | |
| Salaries and benefits (note 3b) | 26,453,846 | 24,653,654 |
| Consulting and professional | 3,296,949 | 3,366,706 |
| Premises | 2,543,258 | 2,442,298 |
| Publications, media and publishing | 898,927 | 776,049 |
| Information technology | 864,582 | 639,645 |
| Office and administration | 452,868 | 543,248 |
| Meetings, training and travel | 425,043 | 537,596 |
| Amortization of capital assets paid by Board | 1,241,269 | 1,189,663 |
| **TOTAL EXPENSES** | **36,176,742** | **34,148,859** |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES** | **(189,747)** | **1,261,626** |
| Net Assets, beginning of period | 1,261,626 | 0 |
| **NET ASSETS, end of period (note 7)** | **$ 1,071,879** | **$ 1,261,626** |

See accompanying notes to financial statements

## Statement of Cash Flows

Year Ended March 31, 2013

| | 2013 | 2012 |
|---|---|---|
| Net inflow (outflow) of cash related to the following activities | | |
| **OPERATING** | | |
| Assessment billed | $ 31,821,220 | $ 33,502,936 |
| Regulatory process costs revenue | 1,437,254 | 994,582 |
| Other revenues | 587,470 | 1,839,779 |
| Expenses | (36,176,742) | (34,148,859) |
| | (2,330,798) | 2,188,438 |
| Adjustment for Non-cash Expenses | | |
| Amortization of capital assets paid by Board | 1,241,269 | 1,189,663 |
| Amortization of leasehold improvements paid by Landlord | 261,965 | 261,965 |
| | 1,503,234 | 1,451,628 |
| Changes in Non-cash Working Capital | | |
| Accounts receivable | 607,989 | (690,897) |
| Regulatory process costs to be assessed | (313,151) | 621,032 |
| Deposits and prepaid expenses | (36,446) | 24,849 |
| Operating reserve | (69,172) | (752,652) |
| Accounts payable and accrued liabilities | 2,004,395 | 119,972 |
| Pension liability | (21,327) | (55,419) |
| Deferred rent inducement | (338,172) | (338,172) |
| | 1,834,116 | (1,071,287) |
| **Net Cash from Operating Activities** | **1,006,552** | **2,568,779** |
| **INVESTING** | | |
| Investments | (803,156) | 1,031,797 |
| **Net Cash Used in Investing Activities** | **(803,156)** | **1,031,797** |
| **CAPITAL** | | |
| Capital asset purchases | (591,186) | (1,126,470) |
| **Net Cash Used in Capital Activities** | **(591,186)** | **(1,126,470)** |
| **NET CHANGE IN CASH** | (387,790) | 2,474,106 |
| Cash, beginning of period | 5,820,653 | 3,346,547 |
| **Cash, end of period** | **$ 5,432,863** | **$ 5,820,653** |

See accompanying notes to financial statements

## 1. Nature of the Corporation

The Ontario Energy Board (the "Board") is the regulator of Ontario's natural gas and electricity industries. The Board also provides advice on energy matters referred to it by the Minister of Energy and the Minister of Natural Resources.

Effective August 1, 2003, and pursuant to the *Ontario Energy Board Act, 1998* (the "OEB Act"), the Board was continued as a corporation without share capital empowered to fully recover its costs from natural gas and electricity industry participants.

As an agent of Her Majesty in right of Ontario, the Board is exempted from federal and provincial income taxes under the *Income Tax Act*.

The Board is classified as a government not-for-profit organization for accounting purposes.

## 2. Significant Accounting Policies

These financial statements are the first financial statements which the Board has prepared in accordance with Public Sector Accounting Standards (PS), which constitutes generally accepted accounting principles for government not-for-profit organizations in Canada. The Board has chosen to use the standards for government not-for-profit organizations that include sections PS 4200 to PS 4270. The adoption of the new standards did not result in any retroactive adjustments to previously reported financial statements, nor were any significant reclassifications to the comparative figures required.

Significant accounting policies followed in the preparation of these financial statements include:

*a) Revenue Recognition*

Revenues received in the 2012-13 fiscal year that relate to subsequent years are not recognized as revenue and are deferred. Recognition of revenue is matched to the expenses of the Board as follows:

- General cost recovery under s. 26 of the OEB Act related to the expenses of the Board is recognized as revenue to the extent that they are in excess of regulatory process costs (s. 30), amortization of deferred revenue related to capital assets, and other revenues. Revenue assessed in excess of actual cost in 2012-13 is deferred and recognized in fiscal year 2013-14 and referred to as a true-up (note 3c).
- Revenue from administrative penalties assessed against market participants under s. 112.5 of the OEB Act is recognized in the year the Board issues the enforcement order, for the amount identified in the order, provided that the order is not under appeal and a reasonable estimate can be made and collection is reasonably assured. If the order is appealed, revenue will be recognized in the year in which all rights of appeal are exhausted and the order becomes final. Revenue from administrative penalties is not used to reduce the costs assessed under the Board's Cost Assessment Model, but used to support activities relating to consumer education, outreach and other activities in the public interest. Both administrative penalties and their related expenses are reflected in the Statement of Operations and Net Assets and are reflected as internally restricted net assets summarized in note 7 of the financial statements.
- Deferred revenue related to capital assets is recognized as revenue on the same basis that the underlying capital assets are amortized. Revenue related to capital asset expenditures is deferred because they have been billed in advance (note 3d).
- Regulatory process costs are recognized as revenue when related expenses are incurred.
- Other revenues are recognized when received and receivable.

*b) Capital Assets*

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following the acquisition, as follows:

| | |
|---|---|
| Office furniture and equipment | 5 years |
| Computer equipment and related software | 3 years |
| Audio visual equipment | 3 years |
| Leasehold improvements | over remainder of lease |

*c) Financial Instruments*

Effective April 1, 2012, the Board adopted new Public Sector Handbook Standard 3450 – Financial Instruments. The Board's financial instruments are initially measured at their fair value and subsequently measured in one of the following categories: (i) fair value or (ii) cost or amortized cost. The Board uses fair value for the subsequent measurement of cash, accounts receivable, regulatory process costs to be assessed, accounts payable and accrued liabilities. The Board's short and long term investments are subsequently measured at amortized cost.

*d) Use of Estimates*

The preparation of financial statements in accordance with public sector accounting standards requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and recoveries for the year. Actual amounts could differ from these estimates.

*e) Employee Pension Plans*

The Board's full-time employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Board's annual payments to the Fund. Since the Board is not a sponsor of these funds, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the Board, as the sponsor is responsible for ensuring that the pension funds are financially viable. The Board's expense is limited to the required contributions to the Fund as described in note 6a.

The Board also manages a supplementary unfunded pension plan for a former Chair as described in note 6b. The Board accrues its obligations and the related cost under this supplemental unfunded pension plan. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method, prorated on management's best estimate assumptions.

## 3. Industry Assessments for 2012–13

During the 2012–13 fiscal year, the natural gas and electricity industry participants were assessed estimated costs for the 2012–13 fiscal year based on budgeted amounts. Amounts assessed in excess of actual costs are a true-up and are reported as current deferred revenue. The 2012–13 true-up will be used to reduce the 2013–14 fiscal year assessment. The calculation of the general cost recovery, true-up and deferred revenue are outlined in the following tables.

*a) 2012–13 General Cost Recovery*

| | | |
|---|---|---|
| Salaries and benefits (note 3b) | $ | 26,453,846 |
| Consulting and professional | | 3,296,949 |
| Premises | | 2,543,258 |
| Publications, media and publishing | | 898,927 |
| Information technology | | 864,582 |
| Office and administration | | 452,868 |
| Meetings, training and travel | | 425,043 |
| Amortization of capital assets paid by the Board | | 1,241,269 |
| Total expenses | | 36,176,742 |
| Regulatory process costs, amortization of deferred revenue related to capital assets, other revenues and both administrative penalties revenues and their related expenses | | (3,455,740) |
| **General cost recovery at March 31, 2013** | **$** | **32,721,002** |

*b) Accounts Payable and Accrued Liabilities Estimate*

The accounts payable and accrued liabilities amount includes one-time accruals in respect of pay equity, job evaluation, and restructuring costs. These liabilities are recorded in salaries and benefits as shown in note 3a.

*c) 2012–13 Current Deferred Revenue (2012–13 True-up)*

| | | |
|---|---|---|
| General cost recovery (note 3a) | $ | 32,721,002 |
| 2012–13 Capital expenditures paid by the OEB | | 591,186 |
| Total assessment (actual) | | 33,312,188 |
| Total assessment (budget) | | 33,536,115 |
| **2012–13 Current deferred revenue (2012–13 true-up)** | **$** | **223,927** |

*d) 2012–13 Deferred Revenue Related to Capital Assets*

Revenues related to capital asset expenditures are deferred because they have been billed in advance with the exclusion of leasehold improvements paid by the landlord, which were not included in the assessments. As part of the leasehold inducements included in the lease agreement, the landlord paid for $3,540,400 of leasehold improvements on behalf of the Board since the start of the lease on January 1, 2005.

| | | |
|---|---|---|
| Net book value of capital assets 2012–13 (note 5) | $ | 4,448,355 |
| Net book value of leasehold improvements paid by landlord (note 5) | | (1,768,262) |
| **2012–13 Deferred revenue related to capital assets** | **$** | **2,680,093** |

## 4. Operating Reserve

As part of its self-financing status, the Board established an operating reserve, which is adjusted on an annual basis. The primary objective of maintaining this reserve is to fund the Board's operations in the event of revenue shortfalls or unanticipated expenditures. It is to be used for cash flow management and to support working capital requirements.

The operating reserve was initially set at a maximum of 15% of the annual assessment. Based on the review of cash flow history, the Board has set the operating reserve to 10% of the current annual funding requirement. This operating reserve level is expected to be maintained in fiscal year 2013-14.

*2012-13 Operating reserve*

| | |
|---|---|
| Operating reserve as at March 31, 2012 | $ 3,422,783 |
| Adjustment to the operating reserve | (69,172) |
| **Operating reserve as at March 31, 2013** | **$ 3,353,611** |

The Board is not subject to any externally imposed reserve requirements.

## 5. Capital Assets

| | *Cost* | *Accumulated amortization* | *Net book value 2013* | *Net book value 2012* |
|---|---|---|---|---|
| Office furniture and equipment | $ 2,804,730 | $ 2,568,776 | $ 235,954 | $ 330,518 |
| Computer equipment and related software | 10,727,272 | 9,118,378 | 1,608,894 | 2,070,013 |
| Audio visual equipment | 881,447 | 870,086 | 11,361 | 12,074 |
| Leasehold improvements paid by OEB | 1,297,748 | 473,864 | 823,884 | 917,573 |
| Leasehold improvements paid by Landlord | 3,540,400 | 1,772,138 | 1,768,262 | 2,030,225 |
| **Total** | **$19,251,597** | **$14,803,242** | **$ 4,448,355** | **$ 5,360,403** |

## 6. Employee Future Benefits

a) The Board's contribution to the Public Service Pension Plan for the 2012-13 fiscal year was $1,484,106 (2012 - $1,471,091) and is included in salaries and benefits costs on the Statement of Operations and Net Assets.

b) The unfunded supplemental pension plan for a former Chair had an accrued total benefit obligation of $333,047 (2012 - $354,374) and an accrued benefit liability with respect to the Board of $333,047 (2012 - $354,374). The Board's related expense for the year was negative $21,328 (2012 - negative $55,417) and is reflected in salaries and benefits costs. No benefits were paid during the year (2012 - $0). The significant actuarial assumptions adopted at March 31, 2013 included a discount rate of 2.5% (2012 - 3.5%).

c) The Board is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Province of Ontario, a related party.

## 7. Internally Restricted Net Assets

The internally restricted net assets at March 31, 2013 represent revenue from administrative penalties assessed against individual market participants under s. 112.5 of the *Ontario Energy Board Act, 1998*. According to the OEB Cost Assessment Model, revenue from administrative penalties will not be used to reduce payments under the general assessment. Revenue from administrative penalties plus any related interest revenue is internally restricted by the Management Committee to support activities relating to consumer education, outreach and other activities in the public interest.

The changes in internally restricted net assets are as follows:

| | | |
|---|---|---|
| Balance, beginning of the year | | $ 1,261,626 |
| Administrative penalties issued in 2012-13 | $ 130,737 | |
| Interest revenue from administrative penalties | 12,112 | |
| Administrative penalties and interest | | 142,849 |
| Expenses incurred | | (332,596) |
| **Balance, end of the year** | | **$ 1,071,879** |

The Superior Court of Justice Divisional Court released its judgment against a market participant on April 9, 2013, and that market participant exhausted all its appeal rights on April 25, 2013. As per the Board's revenue recognition policy regarding administrative penalties (note 2a) the Board will recognize the $234,000 administrative penalty awarded by the Court in fiscal year 2013-14. The Court also awarded the Board the recovery of costs.

## 8. Deferred Rent Inducement and Operating Lease Commitments

The Board entered into a lease commitment for its office space during the 2004-05 fiscal year, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements which are being amortized on a straight-line basis over 15 years, being the term of the lease.

The changes in deferred rent inducements are as follows:

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of the year | $ 2,620,943 | $ 2,959,115 |
| Less: Amortization of deferred rent inducement netted against premises expense | (338,172) | (338,172) |
| **Balance, end of the year** | **$ 2,282,771** | **$ 2,620,943** |

The minimum annual payments under the operating lease, expiring December 31, 2019, for the remaining 7 years and in aggregate are as follows:

| | |
|---|---|
| March 31, 2014 | $ 2,624,601 |
| March 31, 2015 | 2,746,800 |
| March 31, 2016 | 2,944,147 |
| March 31, 2017 | 3,039,839 |
| March 31, 2018 | 3,140,315 |
| March 31, 2019 | 3,245,816 |
| December 31, 2019 | 2,495,903 |
| **Total** | **$ 20,237,421** |

## 9. Financial Instruments

It is management's opinion that the Board is not exposed to significant interest rate, currency, credit or liquidity risks arising from its financial instruments due to their short term nature.

*Interest Rate Risk:*

The Board's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The Board has three Ontario Government bonds with maturities of June 2013, March 2014, and September 2015 and effective yields of 1.94%, 2.25% and 1.42% respectively. Cash balances earn interest at a rate of 1.15% to 1.25%. The average for the year was 1.23% (2012 - 1.25%).

A 25 basis point change in the interest rate would impact the Board's operating surplus by $17,700.

*Currency Risk:*

The Board's exposure to currency risk is minimal as few transactions are in currencies other than Canadian dollars.

*Credit Risk:*

The Board's exposure to credit risk is minimal as the Board's cash and Ontario Government bonds which have relatively short maturity spans are held with a leading Canadian bank. The Board also has minimal credit risk exposure in regard to regulatory process costs to be assessed and accounts receivable due to high historical collection rates. Below the accounts receivable aging is summarized:

| | *Current* | *+60 Days* | *+90 Days* | *Total* |
|---|---|---|---|---|
| Regulatory process costs | $ 286,003 | $ 94 | | $ 286,097 |
| General cost recovery | | 1,488 | | 1,488 |
| Administrative fees | 10,000 | | | 10,000 |
| HST recovery | 339,039 | | | 339,039 |
| Interest receivable | 4,115 | | | 4,115 |
| **Total** | **$ 639,157** | **$ 1,582** | **$ 0** | **$ 640,739** |

*Liquidity Risk:*

The Board's exposure to liquidity risk is minimal as the Board has a sufficient cash balance to settle all current liabilities and all three Ontario Government bonds are readily convertible into cash at any time without penalty. As of March 31, 2013, the Board had a cash balance of $5,432,863 (2012 - $5,820,653) and total investment balance of $4,757,803 (2012 - $3,954,647) to settle current liabilities of $6,930,580 (2012 - $6,417,151).

## 10. Related Party Transactions

The Province of Ontario is a related party as it is the controlling entity of the OEB. Therefore the IESO, OPA, OPG, Hydro One and multiple Provincial Government Ministries are related parties of the OEB, through the common control of the Province of Ontario. These transactions for the years ended March 31, 2013 have combined revenues of $14,517,752 (March 31, 2012 - $14,275,886), the majority of these being general cost recoveries under Cost Assessment, and combined expenses of $89,243 (March 31, 2012 - $84,437), the majority of these expenses are related to multiple Provincial Government Ministries. Other related party transactions are disclosed in note 6.

# Board Members

**Chair and Chief Executive Officer**

**Rosemarie T. Leclair**

Appointed: April 6, 2011
Term expiry: April 5, 2016

**Vice-Chair**

**Cynthia Chaplin**

Appointed: March 3, 2004
Term expiry: March 2, 2014

*Ms. Chaplin has served as Vice-Chair since March 2010, and as Interim Chair from November 2010 until April 2011.*

**Paula Conboy**

Appointed: March 1, 2010
Term expiry:
February 28, 2015
Full-time Board member

**Marika Hare**

Appointed: April 30, 2010
Term expiry: April 29, 2016
Full-time Board member

**Christine Long**

Appointed: June 13, 2012
Term expiry: June 12, 2014
Full-time Board member

**Ken Quesnelle**

Appointed:
September 6, 2005
Term expiry:
September 5, 2015
Full-time Board member

**Paul B. Sommerville**

Appointed: July 11, 2001
Term expiry: July 10, 2012
Full-time Board member

**Karen Taylor**

Appointed:
September 15, 2010
Term expiry:
September 14, 2012
Full-time Board member

**Allison Duff**

Appointed: February 1, 2013
Term expiry:
January 31, 2015
Part-time Board member

**Emad Elsayed**

Appointed: June 20, 2012
Term expiry: June 19, 2014
Part-time Board member

**Jerry Farrell**

Appointed: June 20, 2012
Term expiry: June 19, 2014
Part-time Board member

**Ellen Fry**

Appointed: June 20, 2012
Term expiry: June 19, 2014
Part-time Board member

**Peter Noonan**

Appointed:
February 1, 2013
Term expiry:
January 31, 2015
Part-time Board member

**Cathy Spoel**

Appointed: October 13, 1999
Term expiry:
February 3, 2014
Part-time Board member

# Management Team

**Aleck Dadson**
Chief Operating Officer

**Mary Anne Aldred**
General Counsel

**Lynne Anderson**
Managing Director,
Applications & Regulatory Audit

**Suzanne Cowan**
Managing Director,
Communications &
Stakeholder Relations

**Allan Fogwill**
Managing Director,
Planning & Business Services

**Peter Fraser**
Managing Director,
Regulatory Policy

**Karlm Karsan**
Managing Director,
Compliance & Consumer Protection

**Julie Mitchell**
Managing Director,
Human Resources

Complete bios of all our Board members and Management Team are available on our website: www.ontarioenergyboard.ca

How to contact the Board:

## ONTARIO ENERGY BOARD

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Facsimile: (416) 440-7656

The Board's website is located at
**www.ontarioenergyboard.ca**

To reach the OEB Consumer Relations Centre, call:
Telephone: (416) 314-2455
Toll-free within Ontario: 1-877-632-2727
E-mail: **consumerrelations@ontarioenergyboard.ca**

To reach the OEB Market Operations Hotline, call: (416) 440-7604

Copies of this annual report, as well as other Board publications, may be obtained from the Board.